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Agenda item 13

DRAFT REPORT OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING ON ITS THIRTEENTH SESSION

Held at the Palais des Nations, Geneva,
from 13 to 17 March 1995

Rapporteur: Mr. Juan Armando Andrada (Spain)

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INTRODUCTION

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting held its thirteenth session from 13 to 17 March 1995 at the Palais des Nations, Geneva.

2. In the course of its session, the Intergovernmental Working Group held ... formal meetings and ... informal meetings.

Chapter I

CONSIDERATION OF SUBSTANTIVE AGENDA ITEMS

(Agenda items 3-10)

A. General opening statements

3. The outgoing **Chairperson** reminded the Group that it was a unique forum where the diverse needs and interests of all member States could be discussed on an equal footing. He urged the Group to take a more aggressive and less passive role in international standard setting, which should not remain the domain of organizations such as the International Accounting Standards Committee (IASC) or the International Federation of Accountants (IFAC). Those organizations did not benefit from the diverse membership from which ISAR benefited.

4. The **Chairperson** of the thirteenth session congratulated the experts on forming the largest session of ISAR in terms of the number of delegations present. He felt that the level of participation was indicative of the importance that environmental issues had on the global agenda. He also impressed upon the Group that the global representation in ISAR was a unique feature of the Group. He felt that development, both in terms of economic and social welfare through increased employment and expanded international trade, could be achieved through the attainment of their objectives by enterprises. Accountancy could contribute to the success of the economic activity of enterprises.

5. The **Officer-in-charge of UNCTAD** first drew attention to a number of organizational issues, including the integration of the staff that serviced ISAR into the structure of UNCTAD and the responsibilities and activities of the Commission on International Investment and Transnational Corporations. He emphasized the relevance and importance of ISAR and the contributions made by the experts participating in its meetings.

6. He stressed that the general issue of international financial instability featured prominently in UNCTAD's strategic planning exercise for the forthcoming UNCTAD IX Conference, and the topics to be discussed by the Group had particular relevance to the themes of UNCTAD IX, namely the processes of economic globalization and liberalization in the world economy and their impact on sustainable growth and development.

7. With regard to the topics on the Group's agenda, he thanked the Government of Sweden for providing generous resources that had enabled the research to be

undertaken. He then summarized the technical cooperation activities that had been undertaken by UNCTAD in support of ISAR's mandate and presented some details about current projects. An ad hoc meeting held in Geneva on 24-25 November 1994 had proved helpful in providing direction for future work on accountancy development.

8. A **representative of the UNCTAD secretariat** reported to the Group on the actions taken during 1994 on the draft resolutions that had been adopted at the twelfth session of ISAR.

9. The representative of **Canada** stressed that the main issue under consideration was to examine the role of accountancy in environmental matters. He added that, because of the importance of this particular session, representatives of two Canadian professional accountancy bodies were present, these being the Certified General Accountants' Association of Canada and the Canadian Institute of Chartered Accountants.

10. The representative of **Chile** said that commercial activity in his country had a significant impact upon the environment. In March 1994, a law had been enacted to establish a general basis for environmental management standards which provided for monitoring of the impacts of specific commercial activities. However, Chile did not have specific guidelines or standards relating to environmental accounting.

11. The representative of **Tunisia** described his country's new environmental regulations and accounting laws. During the last decade, Tunisia had decided on a development strategy that would create a model or way to reflect activities for sustainable development. For this purpose, a legal and statutory arrangement had been conceived, and controlling and supervisory bodies had been set up. The Superior Accounting Council had foreseen the need to reform the Tunisian accounting system by creating a framework to evaluate the impact of corporate activities on their ecological environment and to pinpoint the actions undertaken by corporations to protect the environment, in addition to reporting on compliance with rules and regulations and other contractual obligations. A specific mechanism was foreseen for a financial reporting system that reflected the advantages and disadvantages of a corporation's activities in relation to the conservation of the environment.

B. Informal discussions

12. After hearing the general opening statements, the Intergovernmental Working Group pursued its substantive discussions in informal meetings.

Incentives and disincentives for the adoption of the concept of sustainable development by transnational corporations

13. The first report prepared by the secretariat (TD/B/ITNC/AC.1/3) considered the incentives and disincentives for the adoption of sustainable development by transnational corporations and the role that accountancy could play in this respect. One of the principal researchers for this project, Mr. R. Gray from the University of Dundee, United Kingdom, was present to answer questions raised by the experts.

14. During the course of the discussion it was noted that, under the present accounting model, corporations were not sufficiently encouraged to record all environment-related costs. Furthermore, there were considerable difficulties in the valuation of environmental liabilities, for example the rehabilitation of land, air quality degradation and other forms of environmental damage, as well as difficulties in reporting the value of services which nature provided, for example fresh water and the absorption of pollutants.

15. The representative of **Egypt** questioned whether the size of corporations was a factor in the adoption of environmental accounting practices.

16. Mr. Gray, in replying to a number of questions and comments from the Group, felt that it was unrealistic to attempt to value all environmental factors, both direct and indirect. Two topics most in need of further examination were: (i) the improvement of environmental management systems; and, (ii) the definition of sustainability. Rough measurements were currently in need of development, which could only be achieved by experimentation. He also reiterated the conclusions of the report under discussion to the effect that corporations, if given appropriate guidelines and market structures, could work a lot better to meet the challenge of sustainability within the newly established parameters.

Environmental performance indicators

17. The Group then discussed the paper on the integration of environmental performance indicators with financial information by transnational corporations (TD/B/ITNC/AC.1/5).

18. The representative of **Germany** suggested that the formation of a steering committee might be a productive manner in which the Working Group could work towards filling the apparent global gap in environmental accounting guidelines. Various comments from the Group enunciated the need for clearer guidelines in this respect. However, the observer from the **American Institute of Certified**

Public Accountants felt that this entire topic was still very much at the preliminary stage of development and that the Group could provide a very useful service as a "clearing house" of ideas and a forum for stimulating experts to research possible solutions to the challenges faced, rather than attempting to impose rules or standards.

19. The observer from **CICA** stated that an effective environmental management scheme was required in order to promote comprehensive environmental reporting. The Institute had undertaken a project to explore the feasibility of integrating external costs into a business entity's internal costs to provide an overall assessment of that entity's business activities for the purpose of decision-making and reporting (sometimes referred to as "full-cost accounting").

20. The representative of **Tunisia** suggested that ISAR should deal with environmental accounting step by step. This meant that it was important to consider the needs of final users of information and thereafter establish the indicators for environmental reporting.

21. The representative of the **United Kingdom** emphasized the increasing demand for environmental information by the regulators of capital markets, particularly the United States Securities and Exchange Commission, and by the American Environmental Protection Agency. An initiative was currently under way in the United Kingdom to bring together representatives of banks, other participants in capital markets and corporate leaders in order to resolve the seeming incompatibility of commercial activity and preservation of the environment.

22. The representative of **Bangladesh** stressed the point that developing countries might have difficulties with implementing environmental accounting standards on the same level as the developed countries.

23. The **Federation of European Accountants** said that European countries were at various stages of development and had different problems and needs. A workshop held in November 1994 had concluded that the accountancy profession should take on a stronger role in this connection. Accountants could play a very important role in the verification of environmental performance reports. However, if they were going to present themselves to the public as experts in the field of environmental accounting and auditing, they would need to have specialized skills and qualifications. On the other hand auditors or experts from other disciplines should be excluded from third-party auditing in order to protect the public.

Disclosures by transnational corporations of environmental matters at the national level in annual reports

24. The report on this topic (TD/B/ITNC/AC.1/4) considered reporting by TNCs of environmental performances in their home (developed) countries *vis-à-vis* host (developing) countries. The principal researcher of this assignment, Mr. Claus Noppeney of the University of St. Gallen, Switzerland, was present to respond to questions raised by the experts.

25. During the discussion, it was pointed out that the findings of the report were not unexpected, given that in many countries, environmental accounting guidelines or laws did not exist.

26. The representative of **Switzerland** inquired if there were factors other than environmental laws to encourage TNCs to disclose details of their environmental performance. Mr. Noppeney responded by stressing that, in his opinion, public pressure was the most important stimulant for environmental disclosures.

27. In reply to issues raised by the representatives of **Morocco**, **India** and **Malawi**, Mr. Noppeney emphasized that the objective of the research was to focus on reporting to the general public by TNCs, in particular to shareholders, and not to examine special-purpose non-financial reports required by regulatory bodies in host countries, for example India's state pollution report. The intention was to expose the degree of communication between TNCs and the public. It appeared to be an unfortunate fact that the lack of strong public concern about environmental matters within developing countries manifested itself in the discrepancies that existed in the scope and extensiveness of environmental reporting by TNCs in developing countries and in their home countries.

Review of national environmental accounting rules and regulations

28. A **representative of the UNCTAD secretariat** presented the report (TD/B/ITNC/AC.1/2). A number of delegations made comments which specifically related to the paragraphs within the report referring to their home countries. The secretariat took note of these comments in order to update the information for release in the forthcoming International Accounting and Reporting Issues: 1995 Review.

29. A number of experts felt that, although in nearly all instances countries had not developed specific and comprehensive environmental accounting laws and regulations, in many cases there was alternative legislation which required the release of environmental information. Many countries had comprehensive

environmental protection and management laws which might directly or indirectly affect environmental reporting. However, caution must be exercised because although information might be required by certain governmental bodies, it should also be effectively distributed to the public, just as financial information was disseminated. Once the public had access to the information, it could be more effective in placing pressure upon corporations to modify their environmental impact, if such action was indicated.

30. The representative of the **United Kingdom** felt that although environmental accounting requirements might not be specifically mandated, some national accounting standards, and to a limited extent international standards, implied that environmental issues needed to be taken into account in the preparation of financial statements to the extent that there was a financial impact. However, the representative of **CICA** pointed out the apparent deficiencies in the consistency and extensiveness of the environmental accounting and reporting currently practised. Furthermore, when the experts had requested that this topic be included on the agenda, it had been felt that a survey should be made of national environmental accounting rules and regulations. To survey all legislation which involved environmental matters, however, was beyond the scope of the request and the resources available.

31. The principal conclusions that emerged from the discussions were therefore that it was important to create guidelines and/or develop a basic framework for environmental accounting. Without the prompt development of this framework as guidance to member States, the latter would subsequently find themselves in the position of having to reconcile their independent standards and procedures with those of other member States.

32. The representative of **Germany** stated that international standards and guidelines for professionals, Governments and other relevant parties were somewhat lacking in scope and comprehensiveness. He suggested that all international accounting organizations should be asked to consider establishing committees to review existing and ongoing research with the intention of identifying the most appropriate and suitable concepts which at some later stage could be used as the basis for regulatory bodies to formulate standards.

33. The representative of **Switzerland** suggested that a basic framework for environmental accounting and reporting should be developed by ISAR and UNCTAD. It was too soon to create and promulgate standards, and he recommended further consultations to develop a flexible framework on which to base environmental accounting standards. Existing research should be fully exploited to the extent

possible in order to avoid the overlap and duplication of the many exemplary efforts undertaken to date.

34. The suggestions made by the representatives of **Germany** and **Switzerland** were also supported by the representative of the **Netherlands**, who added that the framework should take into account major differences between financial and environmental accounting. He questioned whether environmental reporting should be integrated into financial reporting. The representative of **Spain** pointed out that in his opinion, initially annual accounting should contain only information on financial matters; other matters could be taken up in independent reports.

35. The representative of **Bulgaria** also supported the idea of a framework. Various countries faced different problems, and the framework should be conceived in such a way as to allow sufficient flexibility in meeting the diverse needs for information. A common overall framework could help to avoid the development of different and incompatible standards in the future.

36. These ideas were quickly and strongly supported by many of the representatives. From comments made by various delegations throughout the session, it was apparent that considerable research was already under way, but a significant effort would be required to study and evaluate this information purposefully to identify the most appropriate guidance that should be given to Governments and to other parties affected.

37. Mr. Gray suggested that there were four possible steps in accounting for the environment: (i) recognition of environmental issues within the existing financial accounting and financial auditing framework; (ii) developing environmental management schemes, together with the management accounting and information systems to support such schemes; (iii) wider environmental reporting and disclosure; and (iv) accounting for sustainability.

C. Conclusions

38. The **Group** concluded that the Secretary-General of UNCTAD should be invited to convene a group of experts, within existing resources, and to prepare a report on environmental accounting. The secretariat was requested to submit a progress report on environmental accounting at the fourteenth session of ISAR. Also, ISAR welcomed voluntary contributions by Governments and/or organizations to conduct research and studies on environmental accounting.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

39. The thirteenth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting was opened by Mr. Abdoul Aziz Dieye (Senegal), Chairman of the Group at its twelfth session.

B. Election of officers

(Agenda item 1)

40. At its 1st meeting, on 13 March 1995, the Group elected the following officers:

Chairman:	Mr. L. Nelson Carvalho (Brazil)
Vice-Chairmen:	Mr. Giorgio G. Behr (Switzerland)
	Mrs. Flora María Calvo (Costa Rica)
	Mr. Prawit Ninsuvannakul (Thailand)
	Mr. Abdelaziz Talbi (Morocco)
	Mr. Dimiter Zheljavskov (Bulgaria)
Rapporteur:	Mr. Juan Armando Andrada (Spain)

C. Adoption of the agenda and organization of work

(Agenda item 2)

41. At its 1st meeting, on 13 March 1995, the Group adopted its provisional agenda (TD/B/ITNC/AC.1/1), as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Disincentives to transnational corporations from adopting the concept of sustainable development, including the perceptions of chief executive officers as to the costs involved

4. Survey of environmental performance indicators: indicators currently in use; evaluation of the usefulness of these indicators; other indicators that might be useful

5. Review of national environmental accounting laws and regulations

6. Presentation of the Environmental Management and Audit Scheme by the European Commission

7. Disclosures by transnational corporations of environmental matters at the national level in annual reports

8. Discussion of the case study on Accounting for sustainable forestry management: A case study

9. Report on the discussions and recommendations arising from the expert group meeting in 1993 to review the above case study

10. Creation of a link between environmental accounting at the national government level and at the enterprise accounting level

11. Other business

12. Provisional agenda for the fourteenth session of the Working Group

13. Adoption of the report of the Working Group.

D. Other business

(Agenda item 11)

[TO BE COMPLETED AS APPROPRIATE]

E. Provisional agenda for the fourteenth session of the Working Group

(Agenda item 12)

[TO BE COMPLETED AS APPROPRIATE]

F. Adoption of the report of the Working Group

(Agenda item 12)

[TO BE COMPLETED]